COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0788-02
Bill No.: Perfected HB 366
Subject: Elderly; Retirement Systems and Benefits - General; Revenue Dept.; Taxation and Revenue - General and Income
Type: Original
Date: April 23, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
All State Funds	($19,148,633 to $24,503,264)	($29,244,526 to $32,553,898)	($54,789,394 to $57,999,809)
Total Estimated Net Effect on All State Funds	**($19,148,633 to $24,503,264)**	**($29,244,526 to $32,553,898)**	**($54,789,394 to $57,999,809)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	**$0**	**$0**	**$0 to ($2,000,000)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 24 pages.

FISCAL ANALYSIS

ASSUMPTION

Section 143.124 Pension Exemption
Officials of the **Department of Revenue (DOR)** state this portion of the legislation clarifies that the pension exemption will apply only when the pension is included in the taxpayers federal adjusted gross income and not otherwise subtracted. This proposal would have little or no administrative impact to DOR. **Although requested, the DOR did not provide an estimate of revenue impact.**

Officials of the **Office of Administration, Budget and Planning (BAP)** state that currently taxpayers that have Railroad Retirement Benefits can subtract their retirement benefits from their adjusted gross income on their Missouri income tax return. These same taxpayers may currently also take the pension exemption on the Missouri income tax return. This proposal does not allow the pension exemption for Railroad Retirement Benefits, because they are already excluded from adjusted gross income. This would eliminate deducting the benefits twice.

According to Table 545 in the 1999 Statistical Abstract, Railroad Retirement Benefits are $8 billion nationally. BAP staff assume that 1.9% of this total is paid to Missourians. A 4.5% marginal tax rate was assumed.

According to the actuary section of the Railroad Retirement Board, there are approximately 315,100 railroad retirees nationally. Dividing $8 billion by the 315,100 retirees yields an average pension of $25,400 annually. **Oversight** assumes that 1.9% of the 315,100 retirees (5,987) are located in Missouri. The maximum amount of the pension exemption is $6,000. **Oversight** has calculated the revenue impact of this proposal by multiplying the $6,000 by 5,987 retirees and assuming a 4.5% marginal tax rate. This would yield a savings of $1,616,490 annually by eliminating the ability to deduct Railroad Retirement Benefits twice.

Section 135.552 Tax Credit for donations to Sexual Violence Crisis Service Centers
Department of Revenue (**DOR**) officials state this portion of the legislation creates a tax credit for contributions made to a sexual violence crisis center, as long as the total amount of contributions for the taxable year exceeds $100. The tax credit is equal to 50% of the contributions made, not to exceed $50,000. The tax credit is nonrefundable, but may be carried over to the next four succeeding tax years. The cumulative amount of tax credits claimed in any one fiscal year shall not exceed $2 million.

DOR assumes the Director of Public Safety will determine annually which facilities in this state may be classified as sexual violence crisis service centers. The Director of Public Safety must also apportion the tax credits equally among all sexual violence crisis service centers. Any unused tax credits must be reapportioned by Public Safety to ensure that all the tax credits are

ASSUMPTION (continued)

available for that fiscal year. Each sexual violence crisis center is to provide Public Safety with the identity of each taxpayer making a contribution and the amount of the contribution. The credit shall apply to all tax years beginning on or after January 1, 2002, and will expire on December 31, 2006.

The number of taxpayers who will make donations and become eligible for this credit is unknown at this time. DOR assumes Public Safety will be the certifying agency and will monitor the accounts. DOR stated their workload measures but did not provide an estimate of administrative impact.

This portion of the legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor at a cost of $46,170. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of $9,007 is requested for implementation costs.

Oversight assumes the Department of Revenue could request additional FTE to process the additional tax credits if the need arises, but for purposes of this fiscal note, DOR is assumed only to have programming costs and state data center costs totaling $55,177 in FY02 as a result of this proposal.

In a similar proposal, officials from the **Department of Public Safety (DPS)** stated this language creates a tax credit for donations made to sexual violence crisis service centers. The DPS assumes implementation of this proposal will require three FTE in their department. Required would be one (1) Program Specialist II (at $40,716 annually) to supervise and work with the centers to determine who qualifies, review tax credit documents and answer citizen questions; one (1) Accountant I (at $30,204 annually) to review, monitor, and process tax credits as they are sent to the DPS; and one (1) Clerk IV (at $26,460 annually) to provide clerical support for the program.

Oversight assumes the DPS can utilize existing resources to perform many of the duties involved with implementing this proposal and will only require an additional Program Specialist.

In a similar proposal, officials from the **Department of Insurance (INS)** stated this language grants tax credits against an insurer's premium tax payments (Chapter 148, RSMo) for donations to sexual violence crisis centers. Maximum annual credit per taxpayer is $50,000. Total credits are capped at $2 million annually. The INS assumes a range of $0 to $2,000,000 as the potential decrease in premium tax collected as a result of proposed legislation. Since the premium tax is split 50/50 between the General Revenue Fund and the County Foreign Insurance Funds, the INS

ASSUMPTION (continued)

estimated the fiscal impact to the County Foreign Insurance Funds as a range of $0 to $1,000,000 decrease.

Tax credits for this legislation would not begin until the 2002 tax year which would be paid 3/2003. Legislation could potentially be taken by 1,638 insurance companies. INS estimates the maximum tax credits of $2 million will be taken, resulting in a decrease in premium tax revenue. Premium tax revenue is split 50/50 between GR and County Foreign Insurance Funds. County Foreign Insurance Funds are later distributed to school districts after they have been collected by the state.

Officials from the **Office of Administration, Division of Budget and Planning** (**BAP)** assume this tax credit is capped at $2 million annually. There is no empirical basis to estimate the fiscal impact of this proposal. Therefore, BAP estimates the impact to be between $0 and $2 million annually

Oversight estimated the fiscal impact to the General Revenue Fund of the tax credits as a range from $0 to $2 million for fiscal years 2002 and 2003.

Section 135.630 Tax Credit for donation to Unplanned Pregnancy Resource Centers
Department of Revenue (**DOR**) officials state this portion of the legislation authorizes a tax credit equal to 50% of a taxpayer's contribution to an unplanned pregnancy resource center, not to exceed $50,000 per taxable year. The tax credit is non-refundable, but can be carried over to the next four succeeding years. In order to receive the credit, the taxpayer's contributions must have a value of $100 or more. The Director of the Department of Social Services will determine annually which facilities in this state qualify as an unplanned pregnancy resource center. Each unplanned pregnancy resource center is to provide Social Services with the identity of each taxpayer making a contribution and the amount of the contribution. Social Services will provide that information to DOR. The credit shall apply to all tax years beginning on or after January 1, 2002 and will expire on December 31, 2006.

DOR assumes the number of taxpayers who will contribute and become eligible for this credit is unknown at this time. DOR stated their workload measures, but did not estimate administrative impact.

This portion of the legislation will require modifications to the income and corporate tax systems and credit application system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor, at a cost of $46,170. Modifications to the income tax return and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of $9,007 is requested for implementation costs.

ASSUMPTION (continued)

***NOTE: DOR assumes as long as the credits for donations for unplanned pregnancy centers and sexual violent crisis centers are similar with the same effective dates the programmers will be able to make the system modifications at the same time. However, if the legislation is changed and the two credits are not similar or have different effective dates, the programming costs listed above will be needed.

Oversight has not included the above programming costs.

Officials of the **Department of Social Services, Division of Budget and Finance (DBF)** assumes DBF staff would be responsible for determining which facilities meet the criteria of subsection 1 and DBF would also establish procedures and perform the task of "equitable allocating credits to qualified resource centers."

The cumulative amount of tax credits allowable in any fiscal year is $2,000,000. DBF staff would do an initial allocation of the credits at the beginning of each fiscal year then reevaluate the apportionment of unused credits to ensure maximum use of the credits.

The number of staff required is a function of the number of participating facilities. In phone calls with Missouri Right to Life staff, DBF believes there are between 50 and 100 such facilities that would meet the criteria of subsection 1. Based on an estimated number of 85 facilities, DBF could perform the requirements of the legislation with one new Accounting Analyst I.

The Accounting Analyst I would be responsible for reviewing documents provided by the facilities to determine if they meet the criteria of subsection 1. The analyst would establish procedures to equally allocate credits to eligible unplanned pregnancy resource centers. To reapportion unused credits, the analyst would collect interim tax credit utilization information during the fiscal year and make the calculations necessary to reallocate unused credits. The analyst would collect and compile annual tax credit information and prepare a report for the director to send to DOR. Existing staff would provide supervision of the Accounting Analyst.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assumed this tax credit is capped at $2 million annually. There is no empirical basis to estimate the fiscal impact of this proposal. Therefore, BAP estimated the impact to be between $0 and $2 million annually.

Officials from the **Office of the Secretary of State (SOS)** assumed this bill establishes a tax credit for money given to unplanned pregnancy resource centers. Although the bill does not specifically address rule making, this bill may lead to DOR or DOS promulgating rules. These rules will be published in both the *Missouri Register* and the *Code of State Regulations*. Based on experience with other divisions, the rules, regulations and forms issued by DOR or DOS

ASSUMPTION (continued)

could require as many as 8 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is $23. The estimated cost of a page in the *Code of State Regulations* is $27. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

In a similar proposal, officials of the **Department of Insurance (INS)** stated this language would grant tax credits against an insurer's premium tax payments (chapter 148 RSMo) for contributions to Unplanned Pregnancy Resource Centers. Maximum annual credit per taxpayer is $50,000. Total credits are capped at $2 million annually.

Tax credits for this portion of the legislation would not begin until 2002 tax year which would be paid 3/2003. Legislation could potentially be taken by 1,638 insurance companies. INS estimates the maximum tax credits of $2 million will be taken, resulting in a decrease in premium tax revenue. Premium tax revenue is split 50/50 between GR and County Foreign Insurance Funds. County Foreign Insurance Funds are later distributed to school districts after they have been collected by the state.

Sections 620.1400 to 620.1450 Missouri Individual Training Account Program Act
Officials of the **Department of Revenue (DOR)** state this portion of the legislation repeals the Missouri Individual Training Account tax credit. Although requested, the DOR did not provide an estimate of the revenue impact associated with this portion of the proposal.

Oversight assumes the tax credit is capped at $6 million annually. However, according to DOR officials, this credit was not claimed in 1999 or 2000. Therefore, repealing this tax credit would have an effect on total state revenue of $0 to $6 million annually.

Section 348.432 New Generation Cooperative Incentive Tax Credit
Officials of the **Department of Revenue (DOR)** state this portion of the legislation modifies the New Generation Incorporative Incentive tax credit. The DOR does not anticipate a significant increase in the number of new credits filed. Therefore, the DOR will not request additional FTE at this time.

ASSUMPTION (continued)

In a similar proposal, officials of the **Department of Economic Development (DED)** assumed this portion of the proposed legislation would have no fiscal impact on their agency. Officials assumed the proposed changes would be administered by the Department of Agriculture.

Officials of the **Department of Natural Resources (DNR)** assume this portion of the proposed legislation would have no fiscal impact on their agency.

In a similar proposal, officials of the **Department of Agriculture (AGR)** assumed the language would have no fiscal impact on their agency. Under the proposed legislation, the department's total workload would not be increased, but would be unevenly distributed to the last few days of the fiscal year as opposed to current workload in which the credits are issued as applications are received.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assumed this portion of the proposed legislation should not result in additional costs or savings to their agency. BAP notes that it is assumed that utilization of tax credits will increase up to the $6 million cap. However, the increase in utilization is unknown.

Officials from the **Department of Insurance (INS)** state that there are 1631 taxable insurance companies who conduct business in Missouri. If each company invested up to the maximum credit costs would be $24,465,000. There are approximately 300 domiciled companies. If only those companies invested to the maximum tax credit costs would be $4,500,000. The INS cannot estimate the impact of the addition of a new type of project to the new generation cooperative agricultural credit program. INS assumes that this legislation would increase the credits taken against an insurance companies premium tax liability and therefore reduce revenues to GR and the County Foreign Insurance Fund which is later distributed to the school districts.

Oversight notes that Section 348.434, RSMo states that "the aggregate of tax credits issued per fiscal year pursuant to sections 348.430 and 348.432 shall not exceed six million dollars". The tax credits referred to in this proposal are new generation cooperative tax credits (Section 348.432, RSMo). Although more tax credits may be issued due to the passage of this proposal, this proposal does not change the limit on tax credits allowed, therefore, Oversight assumes this proposal would have no fiscal impact on state or local funds

Section 143.124 Pension Deduction increased to $7,200
Officials of the **Department of Revenue (DOR)** state this legislation increases the state income tax deduction for all retirement benefits from six thousand dollars to seven thousand two hundred dollars. It also increases the income thresholds to thirty thousand dollars if filing single, thirty-eight thousand dollars if married filing combined, and nineteen thousand two hundred fifty dollars if married filing separate. This portion of the legislation is effective January 1, 2002.

ASSUMPTION (continued)

According to Budget and Planning, there are 40,612 additional taxpayers who will now qualify for the pension exemption. Therefore, the Department will not request additional FTE at this time. However, if the number of new taxpayers qualifying for this exemption is incorrect, any FTE needed will be requested during the normal budget process.

This legislation will require modifications to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 692 hours of contract labor, a cost of $23,085. Modifications to tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of $4,503 is requested for implementation costs. Although requested, DOR did not provide an estimate of the revenue impact associated with this portion of the proposal.

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this portion of the proposal increases the income tax deduction for pension income to $7,200 and increases the income limits to qualify for this deduction.

INCREASING THE DEDUCTION FROM $6,000 TO $7,200 FOR EXISTING FILERS
According to the Spring 2000 Statistics of Income there were 141,157 returns with income under $20,000 and the average pension income claimed on these returns in tax year 1998 was $6,688. Increasing the maximum deduction to $7,200 would allow them to deduct an additional $688.

The revenue loss in FY99 would be $5.8 million. A 6% marginal tax rate and a 3% annual growth rate are assumed. According to the Spring 2000 Statistics of Income there were 71,235 returns with incomes between $20,000 and $30,000, and the average pension income claimed on these returns in tax year 1998 was $10,615. Increasing the maximum deduction to $7,200 would allow them to deduct an additional $1,200. The revenue loss in FY99 would be $5.1 million. A 6% marginal tax rate and a 3% annual growth rate are assumed.

INCREASING THE INCOME LIMITS

Type of Return	Total Returns qualifying under new Income Limit	Maximum Deduction	Total Revenue Reduction in FY99
Single	24,270	$7,200	$10,484,593
Joint	15,915	$7,200	$6,875,379
Married Separate	427	$6,688	$171,444
Total	40,612		$17,531,415

<u>ASSUMPTION</u> (continued)

The above numbers are based on information from the Spring 2000 Statistics of Income and Budget and Planning's Individual Income Tax Simulator for tax year 1998. A 6% marginal tax rate and a 3% annual growth rate are assumed.

BAP staff assumes that taxpayers will not adjust their withholdings in FY02 to take advantage of this exemption. BAP estimates the Revenue loss in FY02 and FY03 to be $0 and in FY04 to be $33 million.

Oversight estimates a loss to the General Revenue Fund of $8 million for FY 2003 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2003. Oversight assumes 25% of Missouri taxpayers would adjust payments, however it should be noted that this amount could be less depending on taxpayers' awareness of the deductibility of retirement benefits in determining state income tax and their desire to adjust withholdings or estimated payments.

Section 135.342 Tax credit for Teacher purchased school supplies
Officials of the **Department of Revenue (DOR)** state this portion of the legislation authorizes a tax credit, up to $250, for a teacher's non-reimbursed expenditures for instructional materials. The tax credit will not be eligible to anyone not filing a timely return or for anyone already claiming a credit or deduction for the same expenditures. The tax credit is nonrefundable, and can be carried over to the next five succeeding tax years. The taxpayer must qualify as a teacher pursuant to Section 163.011(15), RSMo. The tax credit is effective for tax years on or after January 1, 2001.

In a similar prior fiscal note, the Department of Elementary and Secondary Education indicated there were approximately 61,000 classroom teachers eligible to claim the tax credit. In order to process the tax credit, DOR will need one Tax Processing Technician I for every 4,000 new credits claimed per year and one Tax Season Temporary for every 130,000 credits claimed per year. Also, one Tax Processing Technician I will be needed for every 3,000 pieces of correspondence generated from this legislation. Therefore, in order to maintain the current processing time for all tax returns, DOR will need 15 FTE to process and verify the tax credit.

This legislation will require modifications to the income tax system and credit application system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of overtime at a cost of $46,170. Modifications to the income tax return and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of $9,007 is requested for implementation costs. Although requested, DOR did not provide an estimate of the revenue impact associated with this portion of the proposal.

ASSUMPTION (continued)

Oversight assumes the Department of Revenue would require 692 hours of overtime at a cost of $34,600 for modifications to the income tax system. Oversight also estimates that funding for the State Data Center charges would be $9,007 for additional storage and fields to be captured.

Officials from the **Department of Elementary and Secondary Education (DES)** estimate the fiscal impact as follows:

1. Approximately 61,000 classroom teachers would be able to claim up to $250 in expenses for instructional materials purchased and used in the course of their employment as a teacher.

2. 100% of teachers would incur expenses sufficient to claim the full amount of the credit.

3. The projected fiscal impact would be $15,250,000 for FY 2001.

4. The number of teachers would increase by 2.5% each year. This percentage is used to project the cost of this credit for FY 2002 at $15,631,250, FY 2003 at $16,022,031 and FY 2004 at $16,422,582.

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume the Department of Elementary and Secondary Education would have the information to estimate the fiscal impact of this tax credit.

Officials from the **Secretary of State's Office (SOS)** assume this portion of this bill creates a tax credit for teachers who purchase materials for their classrooms. The rules, regulations and forms issued by the Department of Revenue could require as many as approximately 6 pages in the Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the Missouri Register is $23.00. The estimated cost of a page in the Code of State Regulations is $27.00. The actual costs could be more or less than the SOS's estimated cost of $369 for FY 2001. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules, filed, amended, rescinded or withdrawn.

Oversight assumes SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Section 135.760 Earned Income Credit
Officials of the **Department of Revenue (DOR)** state this portion of the legislation phases in an

ASSUMPTION (continued)

earned income tax credit on the Missouri income tax return. For tax years beginning on or after January 1, 2002, a resident individual is authorized a state earned income tax credit equal to one half of one percent of the federal earned income tax credit. Beginning January 1, 2004, a taxpayer is authorized a state earned income tax credit equal to two and one-half percent, and beginning January 1, 2006, a taxpayer is authorized a state earned income tax credit equal to five percent of the federal earned income tax credit. Beginning January 1, 2008, a taxpayer is authorized a state earned income tax credit equal to seven and one-half percent, and beginning January 1, 2010, a taxpayer is authorized a state earned income tax credit equal to ten percent of the federal earned income tax credit. If the credit exceeds the taxpayer's liability, the credit may be refunded or carried forward. The DOR is required to notify any taxpayer who potentially may be eligible for the tax credit and who did not claim the credit on the state tax return.

According to the Federal Statistics of Income Bulletin, there are 393,452 federal returns filed by Missouri residents claiming an earned income tax credit. This credit will have an extra 20 second impact on all returns processed. The Division of Taxation will need one temporary tax season employee (a cost of $6,067) for every 75,000 returns filed with this credit and one tax season employee for every 2,000 pieces of correspondence received regarding the credit. The Division will also need one Tax Processing Tech I for every 20,000 additional errors generated by this credit.

The Customer Assistance Bureau will need additional tax assistance field personnel to handle the walk in questions until the credit is maximized. One Field Agent is requested for every additional 1,285 walk-ins per year. Also, the Customer Assistance Bureau anticipates the call volume to increase. A telephone collector can handle 2,000 calls per month, therefore, one Telephone Collector is requested for every 24,000 additional calls received regarding this credit.

The DOR will request at this time 2.5 FTE to key and process the tax credits in order to maintain current processing times. All other FTE needed will be requested through the normal budget process once the DOR has processed the credit and has numbers to determine the amount of errors and correspondence received, and the increase in telephone calls and walk-ins.

DOR assumes this legislation will require modifications to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,125 hours of overtime at a cost of $29,422. Modifications to the income tax returns and schedules would be completed with existing resources. State Data Center charges would increase due to the additional storage and fields to be captured. Funding in the amount of $3,657 would be requested for implementation costs. **Although requested, DOR did not provide an estimate of the revenue impact associated with this portion of the proposal.**

ASSUMPTION (continued)

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this portion of the proposal would allow a state earned income tax credit based on a percentage of the federal. BAP assumes the annual growth rate would be 4%, based on U.S. Treasury forecasts. BAP assumes a range from $3.1 million to $3.6 million for FY 03, and $3.2 million to $3.8 million for FY04. The lower limit in based on the assumption that only 85% of taxpayers that use the federal credit will use the state credit. The upper limit assumes 100% of taxpayers that use the federal credit will use the state credit.

According to officials at the **University of Missouri**, there was a total of $600 million in federal earned income tax credits filed with a Missouri address for 1999. Assuming a 2.5% growth rate, and using the .5% proposed for a Missouri earned income tax credit for tax year 2002 filed in 2003, and tax year 2003 filed in 2004; would calculate to $3.23 million state revenue loss in FY2003 and would yield a $3.31 million revenue loss in FY2004.

For purposes of this fiscal note, **Oversight** has assumed that for FY 2003 and FY 2004, 90% of taxpayers who use the federal credit will use the state credit. For FY 2005, Oversight assumes that 95% of taxpayers who use the federal credit will use the state credit. Oversight's estimate is based on the information provided by BAP and the University of Missouri Research Center. Oversight assumes an annual growth rate of 2.5%. Oversight's assumption is based on conversations with other states that currently have an earned income tax credit in place and the provision in this proposal that requires the Department of Revenue to notify potentially eligible filers. Revenue losses are calculated to be $3.3 million for FY03 and $3.42 million in FY04.

Oversight assumes the DOR would require verification of eligibility. In the absence of such verification, total credits could be significantly greater than estimated. Oversight notes the long range cost of this proposal is expected to be greater than $50 million annually.

Section 135.305 Missouri Wood Energy Tax Credit
The **Department of Agriculture (AGR)** and the **Department of Natural Resources (DNR)** officials assume this portion of the bill would not fiscally impact their agencies. DNR provided the following information:

Number of Applicants by Year

- 1997 = 9
- 1998 = 10
- 1999 = 9
- 2000 = Still in Reporting Period, but expect 8 or 9 companies.

ASSUMPTION (continued)

Total Credits Earned by Year

- 1997 = $1,904,880
- 1998 = $3,599,800
- 1999 = $2,936,182
- 2000 = Still in Reporting Period.
- Total Program Credits Earned through 1-29-01 = **$9,437,536**

Operational Notes Concerning Potential Future Impacts of the Wood Energy Tax Credit Program:

1) Since these credits can be assigned to third parties they are not always claimed in the same year as they are earned. The data on claims of these credits is available through the DOR.

2) Most companies entered the program in their respective 1997 tax years. The applications for their 2000 tax years represent in these cases the fourth year of their five-year eligibility periods.

3) The last year for most participating companies is the 2001 tax year.

4) Based on the reduction in the amount of companies expected to participate during tax years 2000 and 2001 a current estimate of credits earned in these years is between $2.5 and $2.9 million each year.

5) This program essentially provides a significant buy-down toward the front-end capital costs of systems that take waste wood and turn it into profitable energy sources.

6) While it has to date been used most by charcoal firms the rapidly rising prices of propane and natural gas have led to several new firms considering the use of waste wood for answering their energy needs. The financial incentive provided by this program can very possibly serve to advance the installation of additional biomass energy production facilities.

Officials of the **Department of Revenue (DOR)** state this portion of the legislation extends the period in which a wood energy producer can claim a tax credit from five years to ten years. Although DOR possesses historical data on this tax credit, they assume the revenue impact is unknown. Extending the claiming period for the tax credit will have little or no administrative impact to the Department of Revenue.

In a similar proposal, officials from the **Department of Economic Development (DED)** assume this portion of the proposal would have no new impact on DED. It extends the wood energy credit for another 5 years. DNR approves these credits. The only place where DED is involved

ASSUMPTION (continued)

with the credit is in a section of statute that is not listed in the fiscal note. It requires DED and DNR to certify that equipment purchased, that qualifies for the credit, is equipment that utilizes the latest technology. The statewide fiscal impact or cost of the credit would have to be projected or assumed by DNR.

Section 135.340 Tax Credit for Paid Leave for Employees Volunteering at School
Officials of the **Department of Revenue (DOR)** state this portion of the bill authorizes a tax credit for employers who grant employees paid leave to volunteer at public and parochial schools, or to attend a school sponsored function for the employee's child. The tax credit is refundable and is equal to 50% of the federal minimum wage for each hour of paid leave per employee. In order to obtain the tax credit, the employer must apply to the Department of Labor and Industrial Relations, who will certify the tax credit to the taxpayer. No more than $5 million in tax credits shall be allowed per year.

There are approximately 134,000 businesses registered by the Department to file and pay withholding tax. However, the Department is unable to determine the number of employers willing to provide paid leave for employees to volunteer at schools. Therefore, the number of taxpayers eligible for this tax credit is unknown at this time. Although requested, DOR did not provide an estimate of revenue impact. DOR stated their workload measures, however they did not arrive at an estimate of staffing needs.

This legislation will require modifications to the individual and corporate income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of overtime at a cost of $41,617. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of $9,007 is requested for implementation costs.

Oversight assumes the Department of Revenue would require 346 hours of overtime at a cost of $17,300 for modifications to the income tax system. Oversight also estimates that funding for State Data Center charges would be $9,007 for additional storage and fields to be captured.

Officials from the **Department of Elementary and Secondary Education (DESE)** state this portion of the proposal creates an income tax credit for employers who grant employees paid leave to volunteer at public elementary and secondary school during school hours. The credit is refundable. No more than $5 million per year is allowed as credit on a statewide basis. Credits shall be issued in the order applications are received. DESE staff state this proposal would not fiscally impact their agency.

ASSUMPTION (continued)

In a similar proposal, officials of the **Missouri Department of Labor and Industrial Relations (DOL)** assumed the Division of Employment Security (DES) would be assigned the responsibility for implementing and maintaining the program for certification and assignment of tax credits, additional funding from General Revenue would be needed to cover the significant costs generated to meet the responsibilities of the program. DES's current funding is strictly for the administration and payment of the unemployment compensation (UC) program.

Because DES's funding is dedicated to the UC program, additional funding from General Revenue would be needed on a continuous basis to cover the costs associated. This amount would be contingent on the number of employer requests for certification, employee leave hours, rules developed and numerous other factors, which would not be known until the Division developed a complete administrative plan.

The DOL does not currently operate a tax credit program and can only estimate the cost to adequately establish and carry out the functions of the program.

The portion of the proposal provides employer requests are to be treated on a first come first serve basis. To ensure employers are granted tax credits fairly as provided, the DOL assumes the program would allow employers to apply for the credit as soon as an employee's paid leave is completed. Otherwise, if the employer waited to apply for the credit, the balance of the $5,000,000 of allowed tax credits could be exhausted. This could generate multiple requests from a single employer annually.

The Department of Revenue estimates there are approximately 134,000 employers in Missouri, who may qualify for the proposed tax credit certification. The conditions for meeting most other tax credit programs are not usually as common as those described in the program proposed.

Most of the 134,000 employers will probably experience and meet the conditions under this program. The $5,000,000 of available credit will require DES to review and process the leave for certification; however, DES would have to continue to process and respond to employer requests made after the $5,000,000 allowance was exhausted.

Mailing the application, determination and yearly certification would create at least three mailings per year for one employer. Administrative Services estimates the cost for mailing each item at a pre-sort rate of $ .32. If DES received requests from one third of the employers, postage could exceed $42,880 annually (134,000 divided by 3 Xs 3 mailings per employer = 134,000 mailings Xs $ .32) plus the cost of envelopes at $10 per box of 500 would be $2,680. DOL assumed there would be a substantial volume of mail initially received and generated at the time of enactment due to employers competing for the credit, which has a retroactive date of 01-01-2001. Employer requests received after the $5,000,000 is exhausted would also require

ASSUMPTION (continued)

additional staff time and mailing costs for the agency. Since the proposed program can not be supported by DES's current funding, additional funding would be needed to cover the proportionate cost for mail room staff. This is estimated to be one-half FTE for a Clerk II. DOL notes that additional mail room staff may be needed depending on the increased amount of mail received and generated, which is not included in the projected costs.

DOL assumes the employer's application form could require in-depth information to determine eligibility and to maintain the integrity of the program and deter fraud. This information may include the employer's name, address, telephone number, employee's name, social security number, activity date, name of the school, school address, school telephone number, school contact for verification, time period there to include the total of hours for each occurrence and what activity the employee participated in. The form may also require certification by the employee, employer and school.

To administer the proposed tax credit program, DES assumes personnel duties would include: opening mailed employer requests, date stamping each piece, filing, reviewing each request, responding to each by generating an application, mailing the application, opening returned/completed employer applications, date stamping each received, filing, investigating, issuing a determination on each application and imaging all pertinent documentation in addition to other duties such as answering telephone calls etc. The DOL estimates a minimum of 2.5 FTE's for a Clerk II, 3 FTE's for a Contribution Technician and 1 FTE for a Contributions Supervisor II would be needed with a 2% yearly increase in salary. It is estimated the cost for personnel including a 24.41% rate for fringe benefits would be $217,152 for 2002, $221,493 for 2003 and $225,921 for 2004. Basic equipment and office expense is estimated to be $65,490 for 2002, $3,960 for 2003 and $3,960 for 2004.

The Office of General Counsel estimates it would need at least 40 hours or more to assist in developing rules. At a rate of $ 33.27 per hour, this would indicate the cost for promulgating rules would be at least $ 1,330.80 and more.

Information Systems (IS) has estimated the costs for establishing and supporting basic program functions for the tax credit process such as generating yearly certifications, approval and denial letters based on $39.16 per hour. IS believes this rate will increase in July 2001. The amount of the increase is not known.

Task	Hours	Cost
System Design	160	$6,265.60
CICS Programming	240	9,398.40
Batch Programming	160	6,265.60

ASSUMPTION (continued)

Forms Design &Overlays		
Certificates	160	6,265.60
Letters	80	3,132.80
Imaging System		10,000.00
Imaging	160	6,265.60

Total one time cost of $47,593.60

Yearly maintenance	96	$3,759.36
Printing:		
Yearly run		8,000.00
Daily run		13,000.00

Total annual cost of $24,759.36

This does not include programming to cross-check certified tax credit employers and employees with employers and employees listed on DES's quarterly wage reports for verification/fraud purposes to determine if they actually worked there.

The UCTF is strictly for the payment of UC and cannot be used to cover the costs generated by this proposal. The agency's administration account is funded by federal grants and is restricted to the administration of the UC program. Special appropriation from General Revenue would be needed to cover the costs created by the proposal. This amount could be substantially more depending on the work load and need for additional programming after the program is started, or it is found that additional space is need to facilitate the increased staff and other factors.

Oversight assumes, for purposes of this portion of the fiscal note, that the Department of Labor and Industrial Relations could handle the provisions of this proposal with up to 2 Contributions Tech I's and 2 Clerk II's and the corresponding equipment and expense. **Oversight** has ranged the administrative impact on the Department of Labor and Industrial Relations from 0 to 4 FTE.

Tax Credit for Baseball Facility Improvement
Officials of the **Department of Revenue (DOR)** assume this amendment authorizes a tax credit for certain owners of a recreation facility with at least six baseball diamonds equal to 80% of the improvement costs for such facility. The tax credit cannot exceed $10,000 per year.

The DOR anticipates a very small number of new credits filed. Therefore, the DOR will not request additional FTE at this time.

ASSUMPTION (continued)

Modifications to the income tax systems will still be needed in order to process the tax credit. Although the DOR anticipates the number of taxpayers eligible for the credit will be minimal, the changes to the system are the same as a highly utilized credit. Therefore, the DOR estimates it will take 1,384 hours of contract labor at a cost of $46,170 in order to make those changes.

Although requested, the DOR did not provide an estimate of the revenue impact associated with this portion of the proposal.

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal will reduce revenue by up to $60,000.

Oversight assumes the maximum amount of the credit ($10,000) will be claimed each year.

This proposal would result in a decrease in Total State Revenues.

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
Savings to General Revenue Fund			
Elimination of Railroad Retirement Benefits being deducted twice	$0	$1,616,490	$1,616,490
Elimination of Mo Individual Training Account Program	$0	$0 to $6,000,000	$0 to $6,000,000
Tax Credit for donation to Sexual Violence Crisis Centers			
Cost - Dept. of Revenue			
Programming costs	($56,561)	$0	$0
Cost - Dept. of Public Safety			
Personal Service (1 FTE)	($20,358)	($42,752)	($44,890)
Fringe Benefits	($6,785)	($14,249)	($14,962)
Expense and Equipment	($14,817)	($10,637)	($10,637)
Total costs to DPS	($41,960)	($67,638)	($70,489)

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
Tax Credit for donation to Unplanned Pregnancy Resource Centers			
Cost - Dept. of Social Services			
Personal Service (1 FTE)	($17,533)	($35,957)	($36,856)
Fringe Benefits	($5,844)	($11,984)	($12,284)
Expense and Equipment	($6,805)	($920)	($947)
Total costs to DOS	($30,182)	($48,861)	($50,087)
Increase Pension Exemption			
Costs - Dept. of Revenue			
Programming	($27,588)	$0	$0
Loss - General Revenue			
Pension exemptions	$0	($8,015,676)	($33,024,585)
Tax Credit for Teacher Purchased School Supplies			
Cost - Department of Revenue			
Personal Services (15 FTE)	($158,940)	($325,827)	($333,973)
Fringe Benefits	($48,874)	($100,192)	($102,697)
Expenses & Equipment	($104,115)	($7,965)	($8,205)
Programming Costs	($43,607)	$0	$0
Total Costs - DOR	($355,536)	($433,984)	($444,875)
Loss - General Revenue Fund			
Instructional Materials Credit	($15,631,250)	($16,022,031)	($16,422,582)
Earned Income Tax Credit			
Cost - Department of Revenue			
Personal Service (2.5 FTE)	$0	($50,748)	($52,017)
Fringe Benefits	$0	($16,914)	($17,337)
Expense and Equipment	($33,079)	($13,864)	($1,212)
Total Costs - DOR	($33,079)	($81,526)	($70,566)

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
Loss - General Revenue Fund			
Earned income tax credit	$0	($3,291,300)	($3,422,700)
Loss - Extend wood energy credit from 5 years to 10 years.	($2,900,000)	($2,900,000)	($2,900,000)
Tax Credit Employers for school volunteers paid leave			
Loss-General Revenue Fund			
Income tax credit for paid leave	$0 to ($5,000,000)	$0 to ($5,000,000)	$0 to ($5,000,000)
Cost - Department of Revenue			
Programming Costs	($26,307)	$0	$0
Cost - Department of Labor and Industrial Relations			
Personal Service (0 to 4 FTE)	$0 to ($82,940)	$0 to ($101,518)	$0 to ($103,547)
Fringe Benefits	$0 to ($20,246)	$0 to ($24,781)	$0 to ($25,276)
Expense and Equipment	$0 to ($98,580)	$0 to ($46,796)	$0 to ($46,833)
Programming costs	$0 to ($59,925)	$0 to ($24,759)	$0 to ($24,759)
Total Costs - DOL	$0 to ($261,691)	$0 to (197,854)	$0 to (200,415)
Recreation Tax Credit			
Loss-General Revenue Fund			
Tax credit for baseball facility impr.	$0 to ($10,000)	$0 to ($10,000)	$0 to ($10,000)
Cost - Department of Revenue			
Programming Costs	($46,170)	$0	$0
ALL STATE FUNDS			
Loss - All State Funds			
Tax credits for donations to sexual violence crisis service centers*	$0	$0 to ($2,000,000)	$0 to ($2,000,000)

FISCAL IMPACT - State Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
Tax credits for contributions made to Unplanned Pregnancy Resource Centers*	$0	$0 to ($2,000,000)	$0 to ($2,000,000)
ESTIMATED NET EFFECT ON ALL STATE FUNDS	**($19,148,633 to $24,503,264)**	**($29,244,526 to $32,553,898)**	**($54,789,394 to $57,999,809)**

***The tax credit in this proposal may be used by individuals and corporations, therefore the revenue impact of the tax credits on all state funds has been reflected as $0 to ($2,000,000).**

FISCAL IMPACT - Local Government	FY 2002 (10 Mo.)	FY 2003	FY 2004
SCHOOL DISTRICTS			
Loss - School Districts			
County Foreign Insurance Tax	$0	$0	$0 to ($2,000,000)
ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICTS	**$0**	**$0**	**$0 to ($2,000,000)**

FISCAL IMPACT - Small Business

Small businesses that are eligible for the tax credits mentioned in this proposal could be fiscally impacted by this proposed legislation. Certain small businesses may receive benefit from the donations encouraged by the tax credits. In addition, the proposal could have an economic impact on all employers.

The amount of impact to small business would include the increased cost for completion of paper work.

DESCRIPTION

Section 143.124
This bill adds a provision to state income tax law that disallows a deduction for an annuity, pension, or retirement allowance to the extent the amount is excluded from federal adjusted gross income or is otherwise deducted from the calculation of state taxable income.

Section 135.552
This bill authorizes a tax credit for 50% of contributions to qualified sexual violence crisis service centers. Sexual violence crisis service centers are defined as nonprofit organizations having as a function the serving of sexual violence victims, their significant others, secondary victims, and the community relating to rape, sexual assault, and sexual abuse.

The tax credits authorized may be taken against income tax, corporate franchise tax, insurance premium tax, financial institutions tax, and express company tax liability. The tax credit is not refundable, but can be carried forward and claimed for up to 3 taxable years.

The maximum credit an individual taxpayer can claim cannot exceed $50,000 per year. The minimum contribution must exceed $100. Contributions may be made in cash, stocks, bonds or other marketable securities, or real property.

The statewide maximum of tax credits that can be taken in any one year cannot exceed $2 million. The bill provides for the Department of Public Safety to certify the centers and the tax credits and to apportion the credits when the applications for the credits exceed the statewide cap.

Section 135.630
This proposal would allow a tax credit for persons contributing to unplanned pregnancy resource centers. Section 135.630, RSMo, defines "unplanned pregnancy resource center" as one that provides predominantly free assistance in the event of an unplanned pregnancy but does not perform childbirths or abortions and is tax exempt. If a taxpayer would contribute at least $100, then he or she may take a tax credit of up to fifty percent of the amount contributed to a resource center. The credit may not exceed $50,000 in a year and any amount exceeding the taxpayer's state tax liability may be carried over for 3 years.

Each year, the director of the Department of Social Services would determine which facilities are unplanned pregnancy resource centers and may request information in order to determine this status. The cumulative amount of tax credits claimed due to contributions may not exceed two million dollars in any fiscal year. The director would have the authority to reallocate tax credits among unplanned pregnancy resource centers, if necessary. Each resource center would provide to the Department of Revenue the identity of each taxpayer who has contributed to the center and the amount of the contribution. This proposal would apply to all taxable years beginning after December 31, 2001.

DESCRIPTION (continued)

Sections 620.1400 to 620.1450
This proposal would eliminate the Missouri Individual Training Account Program.

Section 348.432
This legislation creates an additional kind of new generation cooperative agricultural project which qualifies for tax credits. A new generation cooperative with an investment of $15 million or more and employing at least 100 employees will be eligible for up to $3 million in tax credits. Beginning in tax year 2001 the member must own land in Missouri to receive this credit.

Section 143.124
This bill changes the state individual income tax treatment of public and private pension income received. Under current law, public source pension income received may be deducted from state income tax on the first $6,000 of pension income received if the taxpayer's adjusted gross income is less than $32,000 for married taxpayers and less than $25,000 for single taxpayers. Private source pension income received may be deducted on the first $5,000 received if the taxpayer's adjusted gross income is less than $32,000 for married taxpayers and less than $25,000 for single taxpayers. For tax year beginning January 1, 2002, the bill will allow the first $6,000 of all private pension income received to be deducted if income limits are met.

After January 1, 2003, the bill will allow the first $7,200 of all pension income received (both public and private) to be deducted if the taxpayer's adjusted gross income is less than $38,000 for married taxpayers and less than $30,000 for single taxpayers.

Section 135.342
This bill authorizes an individual income tax credit of up to $250 for instructional materials purchased by a teacher used in the course of employment as a teacher. This credit can be carried forward up to five years. The credit will apply to tax year 2001 and thereafter.

Section 135.760
This bill allows a state individual income tax credit equal to a percentage of any earned income tax credit claimed by the taxpayer on the federal income tax return. The percentage of the federal credit allowed will be 0.5% for tax year 2002 and 2003, 2.5% for tax year 2004, 5% for tax year 2006 and 2007, 7.5% for tax year 2008 and 2009, and 10% for tax year 2010 and thereafter. Any amount of credit which exceeds the taxpayer's liability in any tax year will be refunded to the taxpayer or carried forward into future tax years.

Section 135.305
Extends the period in which a wood energy producer can claim a tax credit from 5 years to 10 years.

DESCRIPTION (continued)

Section 135.340
This bill authorizes a state income tax credit for employers who allow employees paid leave for the purpose of volunteering at public elementary or secondary schools. The tax credit will be equal to fifty percent of the amount of the federal minimum wage for each hour of paid leave allowed. No more than $5 million of tax credits may be issued statewide per year. The taxpayer must be certified for the credit through the Department of Labor and Industrial Relations.

Recreation Credit
This bill allows a tax credit for improvements to a facility with at least six baseball diamonds in a third class county with population of less than 30,000 and bordered by a state line and at least two other third class counties. This credit is capped at $10,000 .

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
  Budget and Planning
Railroad Retirement Board
Department of Public Safety
Department of Insurance
Office of Secretary of State
Department of Social Services
Department of Elementary and Secondary Education
University of Missouri Research Center
Department of Agriculture
Department of Natural Resources
Department of Economic Development
Department of Labor and Industrial Relations

Jeanne Jarrett, CPA
Director
April 23, 2001